



**Mkhambathini Municipality
Annual Financial Statements
for the year ended 30 June 2015**

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2015

General Information

Legal form of entity	Municipality
Nature of business and principal activities	delivering of services to the community
Executive committee	
Mayor	Cllr. T.E. Maphumulo (Mayor) Cllr. C.T. Mkhize (Deputy Mayor)
Councillors	Cllr. E Ngcongo(Speaker Cllr. T.A. Gwala Cllr.K.R..Mofokeng Cllr. T.Z. Maphumulo Cllr. M.R.Ntuli Cllr.F.P.Msomi Cllr. M.M. Lembethe Cllr. N. Zondo Cllr.R.N. Lembethe Cllr.M.A.Ngcongo Cllr. M.M.M. Magubane Cllr. H.S. Mthethwa
Grading of local authority	Grade 2
Accounting officer	Mrs TC Ndlela 031 785 9306
Chief Finance Officer (CFO)	Mr.M. Chandulal 031 785 9320
Municipal Website	www.mkhambathini.gov.za Mrs. T.C Ndlela
Business address	18 Old Main Road Camperdown 3720
Postal address	Private Bag X04 Camperdown 3720
Contact number	031 785 9300
Auditors	Auditor-General
Name of Account Holder	Mkhambathini Municipality
Bank	Standard Bank
Account Number	052 1499 78

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

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Accounting Officer's Responsibilities and Approval

The Accounting Officer are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officers to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Accounting Officer acknowledge that they are ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the Accounting Officer to meet these responsibilities, the Accounting Officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting Officer are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The Accounting Officer have reviewed the municipality's cash flow forecast for the year to June 30, 2015 and, in the light of this review and the current financial position, they are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 6 to 48 which have been prepared on the going concern basis, were approved by the Acting Accounting Officer on 31 August, 2015 and were signed on its behalf of the municipality:

Accounting Officer
Mrs TC Ndlela

Mkhambathini Municipality

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Accounting Officers's Report

The Accounting Officer submit their report for the year ended 30 June 2015.

1. Subsequent events

The Accounting Officer are not aware of any significant matter or circumstance arising since the end of the financial year, apart from any disclosures made on the financial statements.

2. Accounting officer

The Accounting Officer of the municipality during the year and to the date of this report are as follows:

Name	Nationality	Changes
Mr. Mahendra Chandulal	South African	Acted from 01 March 2015 to 14 October 2015
Mr D.A. Pillay	South African	Resigned 28 February 2015
Mrs. T.C Ndlela	South African	Appointed 15 October 2015

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Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	2014 Restated*
Assets			
Current Assets			
Operating lease asset	33	61 366	44 670
Receivables from exchange transactions	6	1 306 234	467 265
Receivables from non-exchange transactions	34	11 673	11 673
VAT receivable	7	2 043 251	931 385
Consumer debtors	8	7 311 992	3 455 667
Cash and cash equivalents	9	14 613 590	5 571 191
		25 348 106	10 481 851
Non-Current Assets			
Investment property	3	5 251 600	1 431 000
Property, plant and equipment	4	94 487 845	79 604 055
Intangible assets	5	48 088	72 132
		99 787 533	81 107 187
Total Assets		125 135 639	91 589 038
Liabilities			
Current Liabilities			
Operating lease liability	33	13 671	11 064
Payables from exchange transactions	13	7 406 762	3 431 210
Unspent conditional grants and receipts	11	4 055 246	3 619 718
Provisions	12	1 682 566	1 625 158
		13 158 245	8 687 150
Non-Current Liabilities			
Provisions	12	2 200 000	1 865 028
Total Liabilities		15 358 245	10 552 178
Net Assets		109 777 394	81 036 860
Net Assets			
Revaluation reserve	10	12 825 818	13 672 554
Accumulated surplus		96 951 576	67 364 306
Total Net Assets		109 777 394	81 036 860

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Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014 Restated*
Revenue			
Commissions received - Insurance Premiums		12 173	10 875
Other income	16	397 478	345 367
Interest received		2 011 020	879 438
Property rates	14	11 588 353	7 038 480
Government grants & subsidies	15	65 339 740	48 931 984
Donation income		-	49 794
Fines, Penalties and Forfeits		31 550	34 340
Licenses and permits		3 946 205	3 542 510
Total revenue		83 326 519	60 832 788
Expenditure			
Employee Related Cost	18	(21 411 323)	(20 388 091)
Remuneration of councillors	19	(4 492 358)	(4 122 707)
Contributions to Medical Aid and Long Service Awards	36	(377 493)	(554 711)
Depreciation and amortisation		(4 626 666)	(4 039 173)
Impairment loss/ Reversal of impairments		(2 145 300)	-
Debt Impairment	37	(2 258 175)	(1 765 002)
Collection costs		(15 886)	(34 414)
Repairs and maintenance		(976 466)	(583 631)
Grants and subsidies Expenditure	38	(7 734 332)	(8 808 031)
General Expenses	17	(14 107 704)	(12 625 012)
Total expenditure		(58 145 703)	(52 920 772)
Surplus for the year		25 180 816	7 912 016

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Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Balance at 01 July 2013	14 329 907	58 949 220	73 279 127
Correction of error	-	582 335	582 335
Net income (losses) recognised directly in net assets	-	582 335	582 335
Surplus for the year	-	7 912 016	7 912 016
Other Adjustment	-	(736 618)	(736 618)
Transfer of depreciation on the revalued asset	(657 353)	657 353	-
Total changes	(657 353)	8 415 086	7 757 733
Restated* Balance at 01 July 2014	13 672 554	67 364 306	81 036 860
Changes in net assets			
Net increase in investment properties and property, plant and equipment	-	3 559 718	3 559 718
Net income (losses) recognised directly in net assets	-	3 559 718	3 559 718
Surplus for the year	-	25 180 816	25 180 816
Total recognised income and expenses for the year	-	28 740 534	28 740 534
Transfer of depreciation on the revalued asset	(846 736)	846 736	-
Total changes	(846 736)	29 587 270	28 740 534
Balance at 30 June 2015	12 825 818	96 951 576	109 777 394

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Cash Flow Statement

Figures in Rand	Note(s)	2015	2014 Restated*
Cash flows from operating activities			
Receipts			
Taxation		10 566 367	11 147 803
Sale of goods and services		(397 768)	479 494
Grants		65 775 151	42 605 124
Interest Received		1 972 415	879 438
		<u>77 916 165</u>	<u>55 111 859</u>
Payments			
Employee costs		(21 411 323)	(20 388 091)
Cash paid to suppliers		(26 470 092)	(28 347 237)
		<u>(47 881 415)</u>	<u>(48 735 328)</u>
Net cash flows from operating activities	23	<u>30 034 750</u>	<u>6 376 531</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(20 996 851)	(19 068 793)
Proceeds from sale of property, plant and equipment	4	4 500	-
Net cash flows from investing activities		<u>(20 992 351)</u>	<u>(19 068 793)</u>
Net increase/(decrease) in cash and cash equivalents		9 042 399	(12 692 262)
Cash and cash equivalents at the beginning of the year		5 571 191	18 263 453
Cash and cash equivalents at the end of the year	9	<u>14 613 590</u>	<u>5 571 191</u>

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Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Commissions received	-	4 000	4 000	12 173	8 173	(b)
Other income	240 091	(92 355)	147 736	397 478	249 742	(c)
Interest Received - Investment	832 374	-	832 374	905 809	73 435	(d)
Interest received - Debtors	156 732	1 043 268	1 200 000	1 105 210	(94 790)	(d)
Total revenue from exchange transactions	1 229 197	954 913	2 184 110	2 420 670	236 560	

Revenue from non-exchange transactions

Taxation revenue

Property rates	16 406 000	(5 598 739)	10 807 261	11 588 353	781 092	(e)
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Transfer revenue

Government grants & subsidies	48 971 000	1 771 000	50 742 000	65 339 740	14 597 740	(f)
Fines, Penalties and Forfeits	89 803	-	89 803	31 550	(58 253)	
Licenses and permits	3 322 000	1 031 826	4 353 826	3 946 205	(407 621)	(a)

Total revenue from non-exchange transactions	68 788 803	(2 795 913)	65 992 890	80 905 848	14 912 958	
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Total revenue	70 018 000	(1 841 000)	68 177 000	83 326 518	15 149 518	
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Expenditure

Employee related cost	(21 969 000)	-	(21 969 000)	(21 411 323)	557 677	(g)
Remuneration of councillors	(4 751 991)	-	(4 751 991)	(4 492 358)	259 633	(h)
Contribution to Medical Aid and Long Service Awards	-	(300 000)	(300 000)	(377 493)	(77 493)	(i)
Depreciation and amortisation	(2 541 600)	(2 000 000)	(4 541 600)	(4 626 666)	(85 066)	(j)
Impairment loss/ Reversal of impairments	-	-	-	(2 145 300)	(2 145 300)	(j)
Debt Impairment	-	(800 000)	(800 000)	(2 258 175)	(1 458 175)	(l)
Collection costs	(42 360)	-	(42 360)	(15 886)	26 474	(m)
Repairs and maintenance	(3 250 000)	1 030 000	(2 220 000)	(976 466)	1 243 534	(n)
Transfers recognised operational	(9 547 000)	-	(9 547 000)	(7 734 332)	1 812 668	
General Expenses	(8 842 049)	(12 139 200)	(20 981 249)	(14 107 704)	6 873 545	(p)

Total expenditure	(50 944 000)	(14 209 200)	(65 153 200)	(58 145 703)	7 007 497	
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Operating surplus before capital expenditure	19 074 000	(16 050 200)	3 023 800	25 180 815	22 157 015	
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Transfer recognised - Capital	20 720 000	-	20 720 000	(21 878 846)	(42 598 846)	(q)
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Surplus or (Deficit) for the year after capital expenditure	39 794 000	(18 709 200)	21 084 800	46 856 683	25 771 883	
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Surplus or (Deficit) for the year after capital expenditure	39 794 000	(18 709 200)	21 084 800	46 856 683	25 771 883	
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Annual Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Explanations

- a) **Licence and Permits** -Variable depending on the number of license applications.
- b) **Commission Received** - Variable depending on the number of staff whose payment are made across to third parties.
- c) **Other income** -mainly due to leases and building plan increases.
- d) **Interest Received** - Interest rates increases and interest received on debtors is variable.
- e) **Property rates** - the amounts actually billed was greater than budget could be due to various reasons such as implementation of new and supplementary valuation roll.
- f) **Government Grants and subsidies** - The roll over have been included in the budgeted amount.
- g) **Employee Related Costs** - Vacancies existed within the municipality.
- h) **Remuneration of Councillors** - Over-budget ,the budget for councillors was at the maximum level.
- i) **Contribution to medical Aid and Long Service Awards** - this was over budgeted for and is variable and pendant on the actuarial valuation.
- j) **Depreciation** - Increase due to additions to property, plant and equipment. Impairment - Impairment of assets through the period 2014/15.
- k) **Budget variances** - The movements within the Adjustment Budget was to cater mainly for movements within expenditure (non-cash items, repairs and general expenditure) and income received.
- l) **Debt Impairment** -Increase due to the increase in consumer debtors.
- m) **Collection costs** - Variable from year to year.
- n) **Repairs and Maintenance** - Only crucial repairs and maintainance was performed.
- o) **Grants and Subsidy Expenditure** - FMG and Electrification grant was not fully spent ,and the roll-over has been applied for.
- p) **General Expenditure** - Underspending was due to cost cutting measures.
- q) **Capital Expenditure** - Spending was due to multi - year projects.

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Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement. The subsequent measurement of investment properties is carried at cost (Cost model).

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

1.3 Property, plant and equipment

Property, plant and equipment is initially measured at cost. Property, plant and equipment is carried at cost less accumulated depreciation and impairment losses (Cost model).

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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Accounting Policies

1.3 Property, plant and equipment (continued)

After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and accumulated impairment losses..

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings, Animal Pound and Parkhome	30
Plant and equipment	
• Brushcutters and Lawn mowers	3-15
• Tractors	10-25
• Guardrails and Boreholes	15
• Other	3-15
Furniture and fixtures	
• Chairs and Sofas	5-20
• Bookshelves and Cabinet	7-20
• Desks and Tables	7-20
Motor vehicles	
• Motor Vehicles	7-20
Office equipment	
• Printers	3-9
• Cameras	3-9
• Video Cameras	3-9
• Airconditioners	3-9
• Other	3-9
IT equipment	
• Laptop	3-8
• Desktop	3-8
• Central Processing Unit	3-8
• Monitors	3-8
Infrastructure	
• Roads and Paving	10-30
• Stormwater	20-25
Community	
• Building (Halls, Change rooms, Taxi rank building and Toilets)	30
• Grand Stand and Paved Area	20-30
• Sport Fields, Combination Court, Fences, Water Tanks	10-18
• Shelters	10-15
Other	
• Tools and equipment	3-9
• Plant and equipment	2-25
• Office equipment	3-9
Security Measures	
• Walls	30
• Gates and Fencing	10

The residual value, the useful life and depreciation method of each asset are reviewed at least at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

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Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.3 Property, plant and equipment (continued)

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

CAPITAL WORK IN PROGRESS

Capital work in progress (WIP) represent the cost of construction work on assets which are not yet completed as at the end of the financial year

WIP costs are accounted for on an accrual basis at costs or fair value given in acquiring or constructing the asset. Under the accrual basis of accounting, costs are recognised when incurred, usually when goods or services are consumed and not necessarily when such goods or services are actually paid for.

Costs is the amount of cash or cash equivalent paid, including imports duties and non-refundable purchases taxes, after deducting trade discounts and rebates.

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transactions.

The cost or fair value of an item of WIP is recognised as an assets if, and only if :

- (a) It is probable that future economic benefits associated with the item will flow to the entity ;and
- (b) The cost of the item can be measured reliably.

WIP assets are not depreciated until they are ready for their intended use.

Upon completion, WIP assets are reclassified to the appropriate asset class and at this stage depreciating commences.

The following is disclosed in the financial statement in respect of WIP :

- (a) The amount of expenditure recognised in the carrying amount in the course of construction; and
- (b) The amount of contractual commitment.

1.4 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

The Amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Amortisation is provided to write down the intangible assets, on a straight line basis as follows:

Item	Useful life
Computer software, other	3-5 years

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Accounting Policies

1.5 Financial instruments

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value.

Trade and other receivables are classified as receivables.

An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified. Amounts that are receivable within 12 months from the reporting date are classified as current.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Liabilities are generally settled within the period of 30 days, accordingly, any impairments, if any, are considered to be immaterial.

Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

1.6 Tax

Normal tax expense

No provision has been made for taxation as the municipality is exempt from taxation in terms of section 10 (1) (A) or the Income Tax Act.

Value Added Tax (VAT):

The municipality accounts for VAT on the cash/payments basis, based on the approval received from the Commissioner for South African Revenue Services to an application by the Municipality, permission has been given to remit or claim for value-added tax on the payments basis for debtors and creditors.

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are expensed as they become due.

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Accounting Policies

1.8 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.9 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Mkhambathini Municipality

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Accounting Policies

1.9 Impairment of non-cash-generating assets (continued)

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Accounting Policies

1.9 Impairment of non-cash-generating assets (continued)

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.10 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Mkhambathini Municipality

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Accounting Policies

1.10 Employee benefits (continued)

Vested employee benefits are employee benefits that are not conditional on future employment.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Contribution to the Natal Joint Provident Fund (NJF) and are made as follows.

Current :	Provident 1 - 30 Members - 5 % Council - 9 %
	Provident 2 - 7 Members - 7% Council - 18.04%
	Provident 3-2 Members - 9.25 % Council 18.04 %
Retirement	2 Members - 7% Council - 13.65%
Superannuation	32 Members -9.25% Council - 25 %

1.11 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.12 Revenue Recognition

Revenue is recognised at cost, and no interest is recognised as a result of any time value of money adjustments.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Revenue from Exchange Transaction

Interest is recognised on a time proportion basis. Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariffs by Council. This includes the Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement. Revenue from the sale of goods is recognised when the risk is passed to the consumer. Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use. Where public contributions have been received but the Municipality has not met the condition, a liability is recognised.

Revenue from non-exchange transaction

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount

1.13 Comparative information

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

1.14 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the property, plant and equipment in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the property, plant and equipment.

1.15 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the property, plant and equipment in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the property, plant and equipment.

1.16 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003) the Municipal Systems Act (Act No. 32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Mkhambathini Municipality

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Accounting Policies

1.17 Revaluation reserve

The surplus arising from the revaluation of land is credited to a non-distributable reserve. On disposal, the net revaluation surplus is transferred to accumulated surplus/(deficit) while gains or losses on disposal, based on revalued amounts, are credited or charged to the Statement of Financial Performance.

1.18 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

1.19 Presentation of budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2014-07-01 to 2015-06-30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Mkhambathini Municipality

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Accounting Policies

1.20 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Mkhambathini Municipality

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2. New standards and interpretations

2.1 Standards and interpretations issued but not yet effective current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 20 : Related Party disclosures		Immediate
• GRAP 32 : Service concession arrangements grantor		Immediate
• GRAP 108 : Statutory Receivables		Immediate
• GRAP 109: Accounting by Principals and Agents		Immediate
• IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset		Immediate

2.2 Standards and Interpretations effective and adopted in the current year

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	01 April 2015	Immediate
• GRAP 1: Presentation of Financial Statements	01 April 2014	Immediate
• GRAP 105: Transfers of functions between entities under common control	01 April 2015	Immediate
• GRAP 106: Transfers of functions between entities not under common control	01 April 2015	Immediate
• GRAP 107: Mergers	01 April 2015	
• GRAP 2 : Cash Flow Statement	01 April 2014	Immediate
• GRAP 3: Accounting Policies, Change in Accounting Estimates and Errors	01 April 2014	Immediate
• GRAP 9 : Revenue from Exchange Transactions	01 April 2014	Immediate
• GRAP 13: Leases	01 April 2015	Immediate
• GRAP 16 : Investment Properties	01 April 2015	Immediate
• GRAP 17 : Property, Plant and Equipment	01 April 2015	Immediate
• GRAP 21 : Impairment of non - cash generated asset	01 April 2015	Immediate
• GRAP 23 : Revenue from non - exchange transaction	01 April 2015	Immediate
• GRAP 31 : Intangible assets	01 April 2015	Immediate
• GRAP 25 : Employee Benefits	01 April 2015	Immediate

3. Investment property

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	R 5 251 600	R -	R 5 251 600	R 1 431 000	R -	R 1 431 000

Reconciliation of investment property - 2015

	Opening balance	Other changes, movements	Total
Investment property	1 431 000	3 820 600	5 251 600

Mkhambathini Municipality

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Figures in Rand	2015	2014
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3. Investment property (continued)

Reconciliation of investment property - 2014

	Opening balance	Total
Investment property	1 431 000	1 431 000

Investment Property

	As previously reported	Correction of error	Total
Investment property	1 158 000	273 000	1 431 000

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality. Investment properties (land) are held for capital appreciation.

Restrictions on the ability to realise investment property or the remittance of revenue and proceeds of disposals. The correction of error for investment properties was due to the duplication of an asset reflected in the fixed asset register.

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

4. Property, plant and equipment

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	12 228 780	(2 290 165)	9 938 615	9 415 368	(1 925 990)	7 489 378
Capital Work in Progress	22 202 679	-	22 202 679	12 976 188	-	12 976 188
Other Assets - Movables	6 490 443	(3 248 548)	3 241 895	5 675 430	(2 466 556)	3 208 874
Roads and Paving	35 555 239	(7 184 791)	28 370 448	34 842 990	(5 438 594)	29 404 396
Community Assets	39 916 408	(9 182 200)	30 734 208	31 859 786	(5 334 567)	26 525 219
Total	116 393 549	(21 905 704)	94 487 845	94 769 762	(15 165 707)	79 604 055

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Buildings	7 489 378	201 049	-	(247 000)	2 859 363	(364 175)	-	9 938 615
Capital Work in Progress	12 976 188	17 121 916	-	-	(7 895 425)	-	-	22 202 679
Other Assets - Movables	3 208 874	823 072	(8 059)	-	-	(590 146)	(191 846)	3 241 895
Roads and Paving	29 404 396	712 249	-	-	-	(1 746 197)	-	28 370 448
Community Assets	26 525 219	3 020 560	-	-	5 036 062	(1 894 178)	(1 953 455)	30 734 208
	79 604 055	21 878 846	(8 059)	(247 000)	-	(4 594 696)	(2 145 301)	94 487 845

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Prior period error	Prior period error (2014)	Other changes, movements	Depreciation	Total
Buildings	7 765 023	-	(13 644)	(21 789)	-	(240 212)	7 489 378
Capital Work in Progress	6 249 037	12 666 174	-	-	(5 939 023)	-	12 976 188
Other Assets - Movables	2 918 245	853 403	-	-	-	(562 774)	3 208 874
Roads and Paving	27 398 271	3 556 851	-	-	-	(1 550 726)	29 404 396
Community Assets	19 987 208	1 992 365	260 120	13 773	5 939 023	(1 667 270)	26 525 219
	64 317 784	19 068 793	246 476	(8 016)	-	(4 020 982)	79 604 055

Opening balances

	As Previously Reported	Correction of errors (2013)	Correction of errors (2014)	Total
Buildings	7 524 810	(13 643)	(21 789)	7 489 378
Roads and Pavings	29 404 396	-	-	29 404 396
Community Assets	26 251 325	260 121	13 773	26 525 219
Other Assets - Movables	3 208 874	-	-	3 208 874
Capital Work in Progress	12 976 188	-	-	12 976 188
	79 365 593	246 478	(8 016)	79 604 055

Mkhambathini Municipality

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4. Property, plant and equipment (continued)

The prior period errors in 2013 of R246 478 were due to a duplication of an asset in the fixed asset register (R273 000) and errors resulting from the subsequent decomponentisation of community assets as well as the re-alignment of useful lives of R519 477.

The prior period errors in 2014 of R8 016 were as a result of subsequent decomponentisation of community assets as well as the re-alignment of useful lives.

The impairment losses incurred were for damages and inferior construction related to sportsfields and damages for other assets.

5. Intangible assets

	2015			2014		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	120 219	(72 131)	48 088	120 219	(48 087)	72 132

Reconciliation of intangible assets - 2015

	Opening balance	Amortisation	Total
Computer software	72 132	(24 044)	48 088

Reconciliation of intangible assets - 2014

	Opening balance	Total
Computer software, other	96 175	96 175

6. Receivables from exchange transactions

Other debtors	1 306 234	423 389
UMDM	-	43 876
	1 306 234	467 265

7. VAT receivable

VAT	2 043 251	931 385
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The municipality has lodged an objection with SARS regarding VAT returns where certain input tax has been disallowed by SARS. The matter is still under review by SARS.

8. Consumer debtors

Gross balances		
Rates	12 202 247	6 087 747
Less: Allowance for impairment		
Rates	(4 890 255)	(2 632 080)

Mkhambathini Municipality

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Figures in Rand	2015	2014
8. Consumer debtors (continued)		
Net balance		
Rates	7 311 992	3 455 667
Rates		
Current (0 -30 days)	1 808 369	336 845
30 days	675 674	348 643
60 days	711 906	307 868
90 days	587 341	287 384
120 days	649 506	88 859
150 days	438 338	375 053
180 days	7 331 113	4 442 609
Debtors Discounting	(2 315 238)	(1 102 294)
Provision for Bad Debt	(2 575 017)	(1 629 300)
	7 311 992	3 455 667
Reconciliation for discounting and impairment		
Balance at beginning of the year	(2 632 080)	(867 079)
Contributions made during the year	(2 258 175)	(1 765 001)
	(4 890 255)	(2 632 080)
Councillors in Arrears		
No Councillors were in arrears with the municipality in 2014 / 2015	Nil	Nil
9. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand /Float	371	371
Petty Cash	31	31
Standard Bank -Account number 052149978 - Current Account	532 689	315 267
Standard Bank -Account number 354264338 - Market Link	14 080 499	5 204 746
FNB - Account number 74104076952 - Business Fixed Maturity Notice	-	50 776
	14 613 590	5 571 191
Bank statement balances:	-	-
Standard Bank - Account number 052 1499 78 - Current Account	14 080 499	315 267
Standard bank - Account number 354 264 338 - Market link	692 688	1 591 866
FNB - account number 7410 4076 952 - Business Fixed Maturity Notice	-	50 776
10. Revaluation reserve		
Opening balance	13 672 554	14 329 907
Charge during the year	(846 736)	(657 353)
	12 825 818	13 672 554
11. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
MIG	-	1 090 112
Municipal systems improvement grant	-	9 520

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Figures in Rand	2015	2014
11. Unspent conditional grants and receipts (continued)		
MAP	47 028	47 028
Community development workers	11 225	11 225
Corridor development	-	205 999
Financial management grant	271 157	15 827
Housing grant	444 068	444 068
Lums grant	46 537	46 537
Soul buddies	2 375	2 375
Sport grant	-	117
Electrification Grant	3 232 856	1 746 008
Unspent Grant - EPWP	-	-
Unspent grants - Library	-	901
	4 055 246	3 619 718
Movement during the year		
Municipal systems improvement grant		
Opening balance	9 520	18 770
Current year receipts	934 000	890 000
Conditions met - transfer to revenue	(943 520)	(899 250)
Conditions still to be met - transfer to liabilities	-	9 520
MAP		
Opening balance	47 028	278 802
Current year receipts	-	-
Conditions met - transfer to revenue	-	(231 774)
Conditions still to be met - transfer to liabilities	47 028	47 028
Community development workers		
Opening balance	11 225	11 225
Current year receipts	-	-
Conditions still to be met - transfer to liabilities	11 225	11 225
Corridor development		
Opening balance	205 999	205 999
Conditions met - transferred to COGTA	(205 999)	-
Conditions still to be met - transfer to liabilities	-	205 999
Financial management grant		
Opening balance	15 827	32 707
Current year receipts	1 800 000	1 650 000
Conditions met - transfer to revenue	(1 544 670)	(1 666 880)
Conditions still to be met - transfer to liabilities	271 157	15 827
Housing grant		
Opening balance	444 068	444 068
Current year receipts	-	-
Conditions still to be met - transfer to liabilities	444 068	444 068
Lums grant		
Opening balance	46 537	46 537
Current year receipts	-	-
Conditions met - transfer to revenue	-	-
Conditions still to be met - transfer to liabilities	46 537	46 537

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
11. Unspent conditional grants and receipts (continued)		
Municipal infrastructure grant		
Opening balance	1 090 112	2 289 152
Current year receipts	16 251 000	14 427 000
Conditions met - transfer to revenue	(17 341 112)	(15 626 040)
Conditions still to be met - transfer to liabilities	-	1 090 112
Soul buddies		
Opening balance	2 375	10 464
Current year receipts	-	-
Conditions met - transfer to revenue	-	(8 089)
Conditions still to be met - transfer to liabilities	2 375	2 375
Sport grant		
Opening balance	117	133 905
Current year receipts	-	-
Conditions met - transfer to revenue	(117)	(133 788)
Conditions still to be met - transfer to liabilities	-	117
Pound Grant		
Opening balance	-	104 776
Conditions met - transfer to revenue	-	(104 776)
Conditions still to be met - transfer to liabilities	-	-
Electrification		
Opening balance	1 746 008	6 370 172
Current year receipts	5 000 000	-
Conditions met - transfer to revenue	(3 513 156)	(4 624 164)
Conditions still to be met - transfer to liabilities	3 232 852	1 746 008
Expanded Public Works Programme Grant		
Opening balance	-	-
Current year receipts	1 132 000	1 000 000
Conditions met - transfer to revenue	(1 132 000)	(1 000 000)
Conditions still to be met - transfer to liabilities	-	-
Library Grant		
Opening Balance	901	-
Current Year receipt	681 000	653 000
Conditions met - transfer to revenue	(681 901)	(652 099)
Contributions still to be met - transfer to liabilities	-	901
LGSETA		
Opening Balance	31 669	12 297
Conditions met - transfer to revenue	(31 669)	(12 297)
	-	-
DSD - Social Development Grant		
Opening Balance	11 956	51 826
Conditions met - transfer to revenue	(11 956)	(51 826)
	-	-

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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11. Unspent conditional grants and receipts (continued)

The nature and extent of government grants recognised in the annual financial statements are indication of other forms of government assistance from which the municipality has directly benefited.

Non-current liabilities	-	-
Current liabilities	4 055 246	3 619 718
	4 055 246	3 619 718

12. Provisions

Reconciliation of provisions - 2015

	Opening Balance	Increase/ (Decrease)	Total
Medical Aid Benefits and Long Service Awards (Long Term)	1 865 028	334 972	2 200 000
Provision for leave	1 606 679	14 887	1 621 566
Medical aid benefits and long service (Short term)	18 479	42 521	61 000
	3 490 186	392 380	3 882 566

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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12. Provisions (continued)

Reconciliation of provisions - 2014

	Opening Balance	Increase/ (Decrease)	Total
Medical Aid Benefits and Long Service Awards (Long Term)	1 296 351	568 677	1 865 028
Provision for leave	1 196 014	410 665	1 606 679
Medical aid benefit and Long service (Short term)	32 445	(13 966)	18 479
	2 524 810	965 376	3 490 186

The leave provision represents management's best estimate of the municipality's liability under one period based on prior experience .

Post retirement medical benefits

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
12. Provisions (continued)		
POST RETIREMENT MEDICAL BENEFITS		
The Council operates a defined medical aid benefit scheme for the benefit of its permanent employees.		
Post-retirement medical aid benefits are offered to all employees by subsidising a portion of the medical aid contribution after retirement.		
The main assumptions used by the actuary are:	2015	2014
Discount rate per annum	Yield curve	9.92%
Health care cost inflation rate	CPI + 1%	8.89%
Net effective discount rate	Yield curve based	0.95%
Post -Retirement subsidy		
Retirement age		
Males	65	65
Females	60	60
Mortality during employment	SA 85-90 Ultimate Mortality Table	
Mortality post retirement	PA90-1 Ultimate Mortality Table .	
Number of in-service non-members	48	42
Number of in-service members	0	25
Number of pensioners	0	0
No. of Active employees	0	0
Accrued liability at 30 June	1285000	1138956
Future - service cost	173457	124,558
Interest cost	112415	70,856
Expected benefits payments/ Change in assumption	100,586	0
Actuarial loss/(gain)	39242	199,540
Total annual expense	146044	394,954
Projected accrued liability at 30 June ensuing year	1538000	1,253,600
Accrued liability at 30 June	1285000	1,138,956
Short term portion of accrued liability	-	-
Long term portion of accrued liability	1285000	1,138,956
The effect on the liability of a 1% change in the assumed rate of medical inflation:	Liability (R millions)	Liability (R millions)
Central assumptions		0.994
1% increase in assumed medical inflation	1.025	1.252
1% decrease in assumed medical inflation	0.968	0.767

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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12. Provisions (continued)

Long Service Awards and Retirement Gifts

LONG SERVICE AWARDS AND RETIREMENT GIFTS

The Council offers employees leave awards that may be exchanged for cash on certain anniversaries of commencing service.

The main assumptions used by the actuary are:

	2015	2014
Discount rate per annum	Yield Curve	8.40%
General salary inflation rate (long term)	Equal to CPI	7.38%
Net effective discount rate	Yield curve based	0.94%
Retirement age		
Males	65	65
Females	60	60
Mortality during employment : SA 85-90 Ultimate Table adjusted for Female lives		
Number of Active employees	81	67
Accrued liability at 30 June	976,000	744,551
Future - service cost	109,277	87,407
Interest cost	61,796	44,191
Expected benefits payments	-37,318	-32,445
Actuarial loss/(gain)	97,694	60,604
Total annual expense	231,449	159,757
Projected accrued liability at 30 June ensuing year	976,000	897,145
Accrued liability at 30 June	976,000	744,551
Short term portion of accrued liability	-61,000	-18,479
Long term portion of accrued liability	915,000	726,072

	Liability (R millions)	Liability (R millions)
The effect on the liability of a 1% change in the assumed rate of salary inflation:		
Central assumptions	0	0.731
1% increase in assumed salary inflation	1.095	0.800
1% decrease in assumed salary inflation	0.915	0.670

13. Payables from exchange transactions

Trade payables	3 355 374	782 434
Other creditors	1 129 472	625 439
Retention	2 921 916	2 023 336
	7 406 762	3 431 209

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
14. Property rates		
Rates received		
Residential	2 670 426	2 787 354
Commercial	516 075	2 117 347
State and Education	1 085 578	174 961
Agriculture	2 694 179	2 033 687
Public service infrastructure	143 195	49 718
Sectional Title	1 313 919	-
Other Properties	1 839 132	1 377 071
Industrial	2 783 987	-
Less: Income forgone	(1 458 138)	(1 501 658)
	11 588 353	7 038 480

Valuations

Residential	277 787 000	210 717 000
Commercial	67 242 000	40 476 000
State and education	53 594 270	52 730 000
Agriculture	1 528 820 000	879 900 000
Public service infrastructure	79 045 000	16 902 000
Sectional Title	74 922 000	540 000
Other Properties	295 715 990	111 174 000
Industrial	407 370 000	88 606 000
	2 784 496 260	1 401 045 000

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

15. Government grants and subsidies

Operating grants

Equitable share	39 424 000	23 921 000
Library - Grant Income	681 901	652 099
DSD - (Social Development - Grant)	11 956	51 826
Electrification Grant	3 513 152	4 624 164
Financial Management Grant	1 544 670	1 666 881
MAP Grant	-	231 774
MIG	18 056 872	15 626 040
MSIG	943 520	899 250
Sports Grant	-	133 788
LGSETA	31 669	12 297
Pound Grant	-	104 776
Soul buddies	-	8 089
EPWP Grant	1 132 000	1 000 000
	65 339 740	48 931 984
	65 339 740	48 931 984

Equitable Share

In terms of the Section 227 of the Constitution, this grant is used to enable the Municipality to provide basic services and perform functions allocated to it.

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
16. Other income		
Library Income	18 485	12 587
Clearance Certificates	9 315	13 879
Subscription Library	35	105
Tender Fees	84 709	49 095
Building Plans	179 619	194 320
Operating lease income	73 072	68 572
Other Revenue	120	240
Application fee (Planning)	17 737	6 569
Enforcement	14 386	-
	397 478	345 367
17. General expenses		
Materials	48 926	48 533
Advertising	228 867	136 293
Auditors Fees	1 083 457	787 459
Pound Security	89 417	153 900
Face Value - Licence Card Renewals	185 733	182 967
Legal Expenses	205 724	530 644
Consumables	226 357	117 553
Valuation Fees	23 333	770 707
Landfill Site Fees	169 066	131 863
Rentals	472 289	120 957
Insurance	167 854	129 498
Community development and Training	3 582 376	2 904 495
Conferences and seminars	226 582	217 908
Bank Charges	139 369	117 055
IT expenses	515 844	573 014
Levies - Kwa Nologa	500 000	450 000
Magazines and Periodicals	46 600	-
Licence Renewal	17 176	9 353
Disaster Management	303 338	245 171
Fuel and oil	512 132	681 999
Postage and courier	28 631	26 316
Printing and stationery	320 215	253 863
Art & Culture	262 430	262 414
Protective clothing	94 246	61 333
Security Charges - Banking	47 557	44 928
Telephone and fax	512 763	445 738
Training and Development	528 750	372 615
Subsistence and Travelling	19 357	27 867
Electricity	675 112	527 580
Tourism development	26 756	79 574
Building Control	82 122	51 684
Sport and Recreation	850 248	664 754
Civic and Hospitality	153 088	105 641
Vat Correction - Prior Year	134	-
Consultants Fees	1 519 808	1 391 336
Other expenses	242 047	-
	14 107 704	12 625 012
18. Employee related costs		
Basic	14 442 228	13 256 943
Bonus	926 537	781 477
Medical aid - company contributions	835 463	704 651
UIF	99 732	106 564

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
18. Employee related costs (continued)		
SDL	161 441	147 837
Leave pay provision charge	807 689	702 500
Cell Phone Allowances	41 600	34 976
Defined contribution plans	1 792 793	2 551 086
Travel, motor car, accommodation, subsistence and other allowances	269 000	189 040
Overtime payments	1 034 305	878 784
Acting allowances	136 857	226 781
Housing benefits and allowances	57 178	43 020
Bargaining Council Contributions	5 500	6 432
Stipend - Ward Committee	801 000	758 000
	21 411 323	20 388 091

Remuneration of Municipal Manager

Annual Remuneration	137 730	288 000
Travel Allowance	24 000	36 000
Back Pay	-	23 869
Other Allowances	419 895	499 232
Leave Pay	159 704	83 654
Subsistence and travelling	-	23 646
Cellphone Allowances	8 000	12 000
	749 329	966 401

The Municipal Manager resigned in February 2015

Remuneration of Chief Finance Officer

Annual Remuneration	637 000	-
Travel Allowance	66 000	-
Other Allowances	409	-
Cellphone Allowances	8 800	-
Acting allowance	5 191	65 387
	717 400	65 387

The Chief Finance Officer was appointed from August 2014. The acting allowance was for the acting Chief Finance Officer during July 2014.

Remuneration of Manager of Community Services

Annual Remuneration	672 000	264 320
Travel Allowance	84 000	33 040
Acting Allowances	-	29 581
Cellphone Allowance	9 600	3 776
Other Allowances	13 949	4 401
	779 549	335 118

The Community service manager was appointed in March 2014.

Remuneration of Manager Technical Services

Annual Remuneration	175 000	300 000
Travel Allowance	35 000	60 000
Backpay	-	19 557
Leave Pay	149 501	43 903
Other Allowances	237 525	387 634
Cell Allowance	5 600	9 600

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
18. Employee related costs (continued)		
	602 626	820 694
The Technical Service Manager contract expired in February 2015		
Remuneration of Manager of Corporate Services		
Annual Remuneration	696 000	676 000
Travel Allowance	60 000	60 000
Other Allowances	11 186	11 634
Leave Pay	36 914	-
Cellphone Allowance	9 600	9 600
Back Pay	-	19 557
	813 700	776 791
19. Remuneration of councillors		
Mayor	705 981	649 079
Deputy Mayor	567 419	544 455
Exco Members	304 470	139 887
Speaker	572 150	544 455
Councillors	2 342 338	2 244 831
	4 492 358	4 122 707
20. Interest received		
Interest Earned from investments	905 810	876 499
Interest charged on trade and other receivables	1 105 210	2 939
	2 011 020	879 438
21. Auditors' remuneration		
External Audit Fees	1 083 457	787 459
22. Operating lease commitments (lessee)		
Operating lease payments represent rentals payable by the municipality for certain office photocopying machines. Leases are negotiated on an average term of five years. Lease rentals escalate by 10% per annum over the period of the lease.		
Operating leases - as lessee (expense)		
Minimum lease payment due		
Within one year	108 427	108 427
Between two to five years	262 031	370 457
	370 458	478 884
23. Cash generated from operations		
Surplus	25 180 816	7 912 016
Adjustments for:		
Depreciation and amortisation	4 626 666	4 039 173
Other Non - Cash flow Items	-	(783 968)
Impairment deficit	2 145 300	-
Debt impairment	2 258 175	1 765 002
Movements in operating lease assets and accruals	(14 089)	(33 606)

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
23. Cash generated from operations (continued)		
Movements in provisions	392 380	965 376
Changes in working capital:		
Receivables from exchange transactions	(838 969)	116 193
Consumer debtors	(2 694 391)	(2 325 556)
Other receivables from non-exchange transactions	-	(11 673)
Payables from exchange transactions	(344 800)	(55 260)
VAT	(1 111 866)	1 115 694
Unspent conditional grants and receipts	435 528	(6 326 860)
	30 034 750	6 376 531
24. Capital Commitments		
24.1. Committed in respect of Capital Expenditure		
Approved and contracted for :		
• Road Infrastructure	740 030	283 642
• Community Infrastructure	3 470 237	551 916
	4 210 267	835 558
24.2. Approved and Not Contracted for		
• Community Infrastructure	13 351 000	-
• Roads Infrastructure	3 500 000	19 140 000
• Community Services	-	1 080 000
• Other Capital assets	-	500 000
	16 851 000	20 720 000
Total capital commitments		
Already contracted for but not provided for	4 210 267	835 558
Not yet contracted for and authorised by accounting officers	16 851 000	20 720 000
	21 061 267	21 555 558
Authorised operational expenditure		
Approved and contracted for		
• Contracted Service	3 137 335	3 571 834
Approved and not contracted for		
• Electrification	11 161 218	5 000 000
Total operational commitments		
Already contracted for but not provided for	3 137 335	3 571 834
Not yet contracted for and authorised by accounting officers	11 161 218	5 000 000
	14 298 553	8 571 834
Total commitments		
Total commitments		
Authorised capital expenditure	21 061 267	21 555 558
Authorised operational expenditure	14 298 553	8 571 834
	35 359 820	30 127 392
25. Contingent Liability		

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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25. Contingent Liability (continued)

1. Due to the fact that not all the posts on the municipality's organogram were evaluated, it is impractical for the municipality to measure the cost of the liability reliably.

Litigation Cases :

2. Manderstone PDA appeal - The appellants advised that it was their intention to bring a high court review applications against the municipality to prove the rezoning .The high court application notice has been received and the Council will then decide whether or not to oppose the application or set aside the matter.The municipality is not defending the matter but is exposed to a possible costs order of R70 000.00.

3. HFR Properties (Pty) Ltd - Portion 17 of the farm Honing Krantz no 945 - HFR properties has erected building without approved plans and is using the property in conflict with town planning scheme provisions. The attorneys has been instructed to obtain the court order for the illegal use of the property.The expected costs is unknown at this point.

4. Spar Development - Action were taken against the developers of Spar to enforce compliance with various transgressions of the Town planning scheme.The developer appealed to the Municipality to allow it time to regulate the transgression. Discussions are to be held with Spar. The expected costs are unknown at this point .

5. ERF 149 Camperdown Madrasah - A successful order was obtained to prevent unlawful occupation of a building erected without the necessary building plans.A bill of costs was taxed but the municipality decided to pursue the matter out of the court and implement the court order to demolish the building.

6.Excellence at Work Consultants CC - Termination of a feasibility study for a cemetery site. The matter is pending in the Magistrate Court. Possible costs are R 135 000.

7. Portion 3 of Farm Tala No.16135 / Nkumbuleni Community Trust - Unauthorised use of land and buildings.An application has been made to the high court for an interdict to prevent trading activities. The expected costs are unknown at this point.

8. Bridoon Trade & Investment - The parties are negotiating on the possible acquisition of land.The expected costs are unknown at this point.

9. Sundeep Singh - The service provider is under curatorship.The matter is presently pending in the Magistrate Court in Camperdown.The expected costs are unknown at this point.

10. Mjajisi Elias Wanda - Claim for damaged crops against the Municipality ,Expected costs R 5 000.00.

26. Prior period errors

The following adjustment were made to amounts previously reported in the Annual Financial statements of the Municipality arising from the compliance to GRAP standards.

Operating lease income

Amount Previously Reported	-	-
Operating lease asset	-	44 670
Opening Accumulated Surplus	-	(62 858)
Operating lease income	-	(68 572)
Payables	-	90 720
Payables from exchange transactions	-	(3 960)
	-	-

Investment Property

Property, plant and equipment (Prior to 30 June 2013)	-	(273 000)
Investment Property (Prior to 30 June 2013)	-	273 000
	-	-

The correction of error for leases was as a result of operating lease income not being previously recognised on the financial statements.

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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The correction of error for investment properties was due to the duplication of an asset reflected in the asset register.

Property, plant and equipment

Investment Property (Prior to 30 June 2013)	-	273 000
Property, plant and equipment (Prior to 30 June 2013)	-	(273 000)
Accumulated Depreciation (Buildings) (Prior to 30 June 2013)	-	(13 644)
Accumulated Surplus (Prior to 30 June 2013)	-	13 644
Accumulated Depreciation (Community Assets) (Prior to 30 June 2013)	-	533 121
Accumulated Surplus (Prior to 30 June 2013)	-	(533 121)
Depreciation (Buildings)	-	21 789
Accumulated Depreciation (Buildings)	-	(21 789)
Accumulated Depreciation (Community Assets)	-	13 773
Depreciation (Community Assets)	-	(13 773)

The correction of error relating to property, plant and equipment related to the duplication of an asset reflected in the asset register and errors which arose from the subsequent decomponentisation of community assets as well as the realignment of useful lives.

27. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The amounts reflected within trade and other payables from exchange transactions are R7 406 762 (2014: R3 431 208).

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Credit risk consists mainly of cash equivalents, and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by council. The utilisation of credit limits is regularly monitored.

Financial instrument	2015	2014
Cash and cash equivalents	14 613 590	5 571 191
Consumer debtors	7 311 992	3 455 667

28. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to that of a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
29. Irregular expenditure		
Opening balance	1 768 717	-
Irregular Expenditure - current year	641 716	1 476 459
Less: Amounts condoned	-	-
Discovered during 2014 /2015 Audit	713 177	292 258
Less: Amounts not recoverable (not condoned)	-	-
Amounts not condoned	3 123 610	1 768 717

Irregular expenditure consists of SCM deviations amounting to R641 716 during the current period.

Irregular expenditure of R713 177 was as a result of service provider declaration of interests not being obtained.

Contracts awards in Terms of Section 36 (Deviations from /and ratification of minor breaches of procurement processes of the Supply Chain management policy amounted to R641 716 These were mainly due to 3 quotes not being obtained and other SCM processes not being complied with.

30. Related Parties

During the year ,the municipality traded with Sya Matiwane Trading who provided decorating services to the Municipality to the value of R4500. Mrs K.M Matiwane is employed as a Cyber Cadet at the Camperdown Municipality Library and is the spouse of the owner of Sya Matiwane Trading . No transactions have been incurred in the 2014 /2015 year.

31. Deviation from procurement processes

Irregular Expenditure	641 716	1 768 717
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32. Operating lease commitment (lessor)

Present value of minimum lease payments due

- Within one year	68 572	68 572
- in second to fifth year inclusive	274 289	274 289
- later than five years	137 145	205 717
	480 006	548 578

The average lease term is for 9 years and 11 months for the lease of the premises. Lease rentals escalate at 10% per annum.

33. Operating lease asset and liabilities

Current assets	61 366	44 670
Current liabilities	(13 671)	(11 064)
	47 695	33 606

The operating lease asset (lessor) has arisen due to the straight-lining of rental income. The operating lease liability (lessee) is due to the straight-lining of lease payments arising from the use of photocopiers.

34. Receivables from non-exchange transactions

Other taxes	11 673	11 673
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35. Revenue

Commissions received	12 173	10 875
Other income	397 478	345 367
Interest received	2 011 020	879 438
Property rates	11 588 353	7 038 480
Government grants & subsidies	65 339 740	48 931 984

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
35. Revenue (continued)		
Donations Income	-	49 794
Fines, Penalties and Forfeits	31 550	34 340
Licenses and permits	3 946 205	3 542 510
	83 326 519	60 832 788
The amount included in revenue arising from exchanges of goods or services are as follows:		
Commissions received	12 173	10 875
Other income	397 478	345 367
Interest received	2 011 020	879 438
	2 420 671	1 235 680
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	11 588 353	7 038 480
Transfer revenue		
Government grants & subsidies	65 339 740	48 931 984
Donations Income	-	49 794
Fines, Penalties and Forfeits	31 550	34 340
Licenses and Permits	3 946 205	3 542 510
	80 905 848	59 597 108
36. Administrative expenditure		
Contributions to Medical Aid and long service awards	377 493	554 711
37. Debt impairment		
Debt impairment	2 258 175	1 765 002
38. Grants and subsidies		
Other subsidies		
FMG Expenditure	1 496 407	1 666 881
Electrification grant expenditure	3 513 152	4 855 938
Library Grant Expenditure	681 901	336 752
EPWP Grant Expenditure	1 099 352	945 337
MSIG Expenditure	943 520	869 335
Sport Grant	-	133 788
	7 734 332	8 808 031

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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39. Change in estimate

In the 2014 valuation, the actuaries assumed that some of the in - service members who are currently not on medical - aid will later join the medical aid. The actuaries also assumed that some of the employees, currently on medical aid will leave the medical aid before retirement.

In the 2015 valuation, the actuaries assumed that the members currently on medical aid will not leave the medical aid before retirement and those who have not joined a medical aid will not do so in future. The effect on the 2015 financial year is a decrease in the medical aid benefits liability of R100 586.

At the end of the year, management reviewed and revised the useful lives of certain assets based on information that best reflected the conditions and circumstances that existed at the reporting date. The asset items affected included IT equipment, furniture and fittings, motor vehicles, office equipment, plant and equipment, tools and equipment and other assets. The effect of the change in residual values across these asset items was 10%. The change in useful lives for IT equipment between 3-5 years changed to 7-8 years. The change in useful lives for furniture and fixtures between 5-10 years changed to 9-20 years. The change in useful lives for motor vehicles between 7-10 years changed to 11-20 years. The change in useful lives for office equipment between 3-5 years changed to 7-9 years. The change in useful lives for plant and equipment between 2-20 years changed to 4-25 years. The change in useful lives for tools and equipment and other assets between 3-5 years changed to 7-9 years. The net effect on the 2015 depreciation charge was a decrease of R4 563. The revised depreciation charge was R594 702 (the existing depreciation charge would have been R599 265) for these asset items.

40. Fruitless and wasteful expenditure

Fruitless and Wasteful Expenditure - Current Year	2 966 935	-
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Costs of R2 764 335 were incurred to reconstruct a sportsfield in the 2014/15 financial year due to the non-adherence to engineering standards that occurred in previous financial years. The costs of R190 821 in running the animal pound are fruitless and wasteful expenditure as the pound is not fully operational. Interest incurred for Eskom ,Telkom and UMDM amounted to R8 106. Expenditure incurred on a lost Samsung Tablet amounted to R3 673.

41. In-kind donations and assistance

In-kind donations provided and gifts received

In-kind donations provided by the municipality	4 500	-
Gifts received	(7 196)	-
	(2 696)	-

In-kind donations: Transportation service paid by the municipality to transport NGO children to a christmas function.

Gifts received by Management members and Councillors attending a SALGA NMA conference .

42. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Amount paid - current year	500 000	450 000
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Audit fees

Amount paid - current year	2 037 298	1 406 359
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PAYE and UIF

Current year payroll deduction	3 976 250	3 602 342
Amount paid - current year	(3 976 250)	(3 602 342)
	-	-

Pension and Medical Aid Deductions

Mkhambathini Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
42. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Current year subscription / fee	4 046 587	3 357 086
Amount paid - current year	(4 046 587)	(3 357 086)
	-	-
VAT		
VAT receivable	2 043 251	931 385

43. Events after reporting date

During August 2015, Maqongo Sportsfield was vandalised by the community and the incident was reported to the police for investigation. The estimated value of damages amounted to R5 800.

Appendix G3
Budgeted Financial Performance (revenue and expenditure)
for the year ended 30 June 2015

	2014/2015							2013/2014							
	Original Budget	Budget Adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. Council approved policy)	Final Budget	Actual Outcome	Unauthorised expenditure	Variance of Actual Outcome against Budget	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated Audited Outcome
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
Revenue By Source															
Property rates	16 406 000	(5 598 739)	10 807 261	-		10 807 261	11 588 353		781 092	107 %	71 %				7 038 479
Property rates - penalties & collection charges	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Service charges - electricity revenue	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Service charges - water revenue	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Service charges - sanitation revenue	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Service charges - refuse revenue	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Service charges - other	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Donation Income	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Interest earned - external investments	832 374	-	832 374	-		832 374	905 810		73 436	109 %	109 %				876 499
Interest earned - outstanding debtors	156 732	1 043 268	1 200 000	-		1 200 000	1 105 210		(94 790)	92 %	705 %				2 939
Commission Received	-	4 000	4 000	-		4 000	12 173		8 173	304 %	DIV/0 %				-
Fines	89 803	-	89 803	-		89 803	31 550		(58 253)	35 %	35 %				34 340
Licences and permits	3 322 000	1 031 826	4 353 826	-		4 353 826	3 946 205		(407 621)	91 %	119 %				3 541 310
Agency services	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Transfers recognised - operational	48 971 000	1 771 000	50 742 000	-		50 742 000	65 339 740		14 597 740	129 %	133 %				48 931 985
Other revenue	240 091	(92 355)	147 736	-		147 736	397 478		249 742	269 %	166 %				338 665
	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Total Revenue (excluding capital transfers and contributions)	70 018 000	(1 841 000)	68 177 000	-		68 177 000	83 326 519		15 149 519	122 %	119 %				60 764 217

Appendix G3

Budgeted Financial Performance (revenue and expenditure)

for the year ended 30 June 2015

2014/2015										2013/2014				
Original Budget	Budget Adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. Council approved policy)	Final Budget	Actual Outcome	Unauthorised expenditure	Variance of Actual Outcome against Adjustments Budget	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated Audited Outcome
Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
Employee related costs	21 969 000	-	21 969 000	-	-	21 969 000	21 411 323	-	(557 677)	97 %	97 %	-	-	19 301 231
Remuneration of councillors	4 751 991	-	4 751 991	-	-	4 751 991	4 492 358	-	(259 633)	95 %	95 %	-	-	4 122 707
Debt impairment	-	800 000	800 000	-	-	800 000	-	-	(800 000)	- %	DIV/0 %	-	-	-
Depreciation & asset impairment	2 541 600	2 000 000	4 541 600	-	-	4 541 600	6 771 966	-	2 230 366	149 %	266 %	-	-	4 039 172
Finance charges	42 360	-	42 360	-	-	42 360	-	-	(42 360)	- %	- %	-	-	-
Collection Costs	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-
Contribution to Medical Aid and long Service awards	-	300 000	300 000	-	-	300 000	377 493	-	77 493	126 %	DIV/0 %	-	-	-
Contracted services	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-
Transfers Recognised Operational	9 547 000	-	9 547 000	-	-	9 547 000	7 744 249	-	(1 802 751)	81 %	81 %	-	-	8 442 469
Other expenditure	8 842 049	12 139 200	20 981 249	-	-	20 981 249	17 348 314	-	(3 632 935)	83 %	196 %	-	-	16 851 892
Repairs and Maintenance	3 250 000	(1 030 000)	2 220 000	-	-	2 220 000	-	-	(2 220 000)	- %	- %	-	-	-
Impairment loss / Reversal of impairments	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-
Total Expenditure	50 944 000	14 209 200	65 153 200	-	-	65 153 200	58 145 703	-	(7 007 497)	89 %	114 %	-	-	52 757 471
Surplus/(Deficit)	19 074 000	(16 050 200)	3 023 800	-	-	3 023 800	25 180 816	-	22 157 016	833 %	132 %	-	-	8 006 746
Transfers recognised - capital	(16 251 000)	-	(16 251 000)	-	-	(16 251 000)	-	-	16 251 000	- %	- %	-	-	-
Contributions recognised - capital	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-
Contributed assets	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-
Surplus/(Deficit) after capital transfers & contributions	2 823 000	(16 050 200)	(13 227 200)	-	-	(13 227 200)	25 180 816	-	38 408 016	(190)%	892 %	-	-	8 006 746
Taxation	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-
Surplus/(Deficit) after taxation	2 823 000	(16 050 200)	(13 227 200)	-	-	(13 227 200)	25 180 816	-	38 408 016	(190)%	892 %	-	-	8 006 746
Attributable to minorities	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-
Surplus/(Deficit) attributable to municipality	2 823 000	(16 050 200)	(13 227 200)	-	-	(13 227 200)	25 180 816	-	38 408 016	(190)%	892 %	-	-	8 006 746
Share of surplus/ (deficit) of associate	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-
Surplus/(Deficit) for the year	2 823 000	(16 050 200)	(13 227 200)	-	-	(13 227 200)	25 180 816	-	38 408 016	(190)%	892 %	-	-	8 006 746